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SUBJECT: WATER PROJECT FINANCING WORKSHOP PRESSES FOR ALTERNATIVES

¶1. (SBU) On November 5-6, the Milken Institute hosted a Financial Innovation Lab in Jerusalem to promote the idea of using public sector bond-issuing mechanisms for financing water, wastewater, and environmental remediation projects in the region. 60 Israeli, Palestinian and Jordanian officials, academics and businesspersons joined with US municipal bond finance experts to explore the water infrastructure situation in Israel, the Palestinian Territories and Jordan, and to evaluate the possibility of using this avenue to fund greatly needed facilities. The Milken Institute is based in Santa Monica, California, and promotes market-based solutions to public policy and economic development problems. Embassy ESTHoff attended the two-day, off-the-record workshop.

¶2. (U) The program had four phases: first, defining the problem; second, reviewing case studies; third, describing of the bond funding mechanism used by public utilities and authorities in the United States; and fourth, considering the use of bond financing tools in the Israel/Palestinian context. On consecutive days, the dismal state of Israel's polluted rivers and the region's dire water and wastewater situation were outlined by academics, civic authorities, and NGOs such as Friends of the Earth Middle East. Case studies of the Kidron, the Yarkon, the Jordan, and the Alexander Rivers were offered, and the conditions of Lake Tiberias (the Sea of Galilee), the aquifers, and the watershed of the Israel/Palestine/Jordan geographical region were described.

¶3. (SBU) Barclays Capital (formerly Lehman Brothers) Managing Director Peter Taylor and Susan Weil of Lamont Financial Services explained the municipal bond financing mechanisms used in the US. Participants expressed interest in the idea, but questioned its application in the region. Is the legal framework for such bond-issuing municipal authorities sufficiently established in the region? Creation of a transnational issuing authority (to address the border-transcending nature of water and waste treatment problems) also raised questions of legal jurisdiction. Given the estimated 40% loss of distributed West Bank water due to theft and seepage, is it even possible to assure the reliable revenue stream needed as proof of repayment potential? Can wastewater service be billed for (and viably denied to non-payers) like freshwater delivery? When addressing a public good such as cleaner rivers or public parks, which generate negligible user fees at best, where will the revenue stream come from? Would the World Bank or other donors agree to placing their aid funds in an escrow account as security for bond issuers, as some financing structures call for? While all of these questions may find answers, they point to the need to adapt the financing model to the regional realities. One participant sagely observed that the problem was really not one of money or water, but rather of relationships: the need to improve the cooperation and interactions among the responsible authorities of the three governments involved.

Cunningham